

COMMONWEALTH OF VIRGINIA

SENATOR MAMIE LOCKE, Chair
DELEGATE DANIEL MARSHALL, III, Vice-chair
ELIZABETH A. PALEN, Executive Director



GENERAL ASSEMBLY BUILDING
201 NORTH 9th STREET, SECOND FLOOR
RICHMOND, VIRGINIA 23219
(PHONE) 804-786-3591 ext. 259
(FAX) 804-371-0169
epalen@dls.virginia.gov
<http://dls.virginia.gov/commissions/vhc.htm>

VIRGINIA HOUSING COMMISSION

SUMMARY

Virginia Housing Commission
April 18, 2013, 10:00 AM
Housing Room C, General Assembly Building

I. Call to Order

Senator Mamie Locke, Chair, called the meeting to order at 10:00 AM.

Members in attendance: Senator Mamie E. Locke, *Chair*; Delegate Daniel W. Marshall, III, *Vice-chair*; Senator George L. Barker; Senator John C. Watkins; Delegate David L. Bulova; Delegate Rosalyn R. Dance; Delegate Barry D. Knight; Mark K. Flynn, *Governor Appointee*; T.K. Somanath, *Governor Appointee*; and Laura D. Lafayette, *Governor Appointee*.

Staff: Elizabeth Palen, *Executive Director of VHC*

II. Quarterly Housing trends

- **Sonya Waddell, Regional Economist, the Federal Reserve Bank of Richmond:**
Unfortunately, most of my information is not new, and is just an update of the presentation I gave in December. We hope to engage in another survey with the Virginia Association of Realtors.
 - On the whole, we are seeing sustained recovery in housing the U.S. and in Virginia. The foreclosure inventory rate continues to decline both national and in Virginia. The inventory of loans has been declining steadily since the peak in 2009. We do still have twice as many loans in the process than we have had in the most difficult period in the 2001-2003 recessions. We are still in a challenging area in the housing market, but things are getting better in a sustained way. Virginia continues to do better relative to the rest of the country, with a lower foreclosure inventory rates lower than most states. Foreclosure starts are also falling.
- **Watkins:** The rate you calculate, is that the percentage of total loans in foreclosure? If so, has the total number of loans in Virginia gone down as well?
 - **Waddell:** The total number of loans in foreclosure went down by about 2,000. It seems the total number of loans is steady but I can look into it.

- **Watkins:** Now, there are tougher criteria to obtain a loan. Correspondingly, the number of loans produced is lower. If the rate is outstanding, we would need to know that.
 - **Waddell:** The rate and number of loans in foreclosure has gone down. From my understanding, you are absolutely correct from about 2008-2010. I think over the past few years we have seen a steady rate of mortgages being made. Lately, we have also seen more purchase loans.
- **Waddell:** Prime Borrowers still makes up the largest part of the foreclosure inventory, about 47% of all mortgages in foreclosure. In 2000, there was a much lower number of foreclosures. By 2007, the share of subprime in the foreclosure inventory went up considerably. By 2009, the share of prime went up considerably because of challenges in the labor market. In 2012, we see a lower number of foreclosures and the share of prime foreclosure is going down.
 - In the fourth quarter of 2012, 2.4%, about 31,000 loans, were 90 days delinquent.
- **Waddell:** In terms of shadow inventory, which are the total number of loans that are 90 days delinquent or are in the foreclosure process, there were just under 52,000 shadow loans in Virginia. This is down considerably from the peak in 2009.
 - The Virginia Association of Realtors estimates there has been an 18% increase in single family home sales in the Virginia from November 2011 to November 2012. The median sales price went up, and there was a decline in average days on market in Virginia.
 - Housing starts also saw a particular increase in the U.S. and in Virginia as well. However, this has not translated to construction employment, like we have hoped.
 - In February 2013 according to the Core Logic measure, we saw a 6.7% increase in house prices in a year over year basis. This marks consistently positive growth in the Core Logic Measure for a full year, since February 2012. This marks the first time we have seen a year over year increase with the Core Logic since 2006.
 - Core Logic also estimated that 19.3% of homeowners in Virginia are in a negative equity situation. This number has been going down steadily.
- **Waddell:** Looking at the foreclosure rate across the state, we do not see concentrations of high foreclosure rates like we have in previous years. We are not seeing too many changes in these numbers.
 - We are seeing higher rates of 90 day delinquency in central Virginia and in the Hampton Roads area. This has been pretty consistent over the past year.
- **Delegate Dance:** Why is that?
 - **Waddell:** I am not entirely sure, but I am happy to look into it.

- **Waddell:** One concern for Hampton Roads is that sequester is the effect of government employment cuts. In Virginia, we continue to see a decline in the unemployment rate. We have fallen below the national average in terms of employment growth in recent months, which may have to do with sequestration.
 - Residential real estate conditions are improving. Prices are stabilizing. We have evidence of increasing construction, and stabilizing or declining foreclosure and delinquency rates. We have a long way to go, and still have a historically high number of problem loans to work through. The labor market in Virginia is stable and growing, but not growing as quickly as we may hope.
- **Watkins:** In the negative equity calculation, does that include HELOCs?
 - **Waddell:** I am not sure, as that number came from Core Logic's report. I can look into it.
- **Watkins:** Has the Fed zeroed in on HELOCs?
 - **Waddell:** We do not have the data to really understand the link between the first and second mortgage. All we rely on is the information we get from our contacts.
 - **Waddell:** That is not a question anyone has a strong handle on right now. We may see the effect in a few years from now, but we are not certain what that effect will be.
- **Senator Barker:** The situation in Northern Virginia is that there has been no significant decrease in employment. Thus far, it has been absorbed fairly well. We have had sustained increase in private sector employment.

III. The Future of Public Housing

- **Maurice Jones, Deputy Secretary for the U.S. Department of Housing and Urban Development:** I will utilize the President's proposed Fiscal Year 2014 (FY'14) budget to show you where we think the priorities with respect to public housing will be over the next few years.
 - There are three priorities we are trying to pursue with regard to public and assisted housing. First, is to put our subsidized public and assisted housing on a financially sustainable path. Second, the budget recognizes that we can no longer expect public housing authorities (PHAs) to house over a million families, while subjecting these authorities to regulations that are burdensome and denying them access to private capital. Third, is to improve the way that federal dollars are spent.
 - Public housing faces existing capital needs backlog of over \$25.6 billion nationwide. The key to addressing this backlog is providing PHAs with a variety of options that provide the flexibility they need to make necessary repairs and other investments to better serve their clients.

- To bring the Public Housing program toward mainstream real estate financing and management, the Department will continue to implement the Rental Assistance Demonstration enacted in 2012. In just the initial 30-day application window PHAs submitted and HUD gave initial approval to proposals that can generate over \$650 million in private debt and equity investments and preserve over 12,000 public housing units—all without any additional funding from the government.
- These applications proposed a host of creative solutions, using (???) RAD to meet local needs by modernizing aging properties for families and the elderly, including energy-retrofits to save on energy cost, reducing the densities of larger, troubled projects, demolishing severely distressed or obsolete units and constructing new replacement units on a one-for-one basis, or transferring subsidies to other mixed-income or rehab projects already underway.
- **Jones:** Not only will this produce quality, fully modernized housing, but many applicants proposed to use RAD to create or enhance mixed-income housing developments, which can strengthen neighborhoods, schools, and other resources in ways that most of us take for granted—safer streets, more accessible, better quality retail offerings, grocery stores, and new parks and recreation centers.
 - The budget also provides \$10 million for a targeted expansion of RAD to Public Housing properties in high-poverty neighborhoods.
 - Some of you may be concerned that the effects of sequestration will prevent you from participating in RAD effectively—or at all.
 - PHAs can make up any gap in operating subsidy for the calendar year owing to FY'13 appropriations that are lower than the FY'12 numbers in the RAD Application.
 - You will only have to make up this gap for the balance of 2013 after converting assistance. Going forward, a PBV or PBRA contract will carry the established FY'12 baseline rent through the duration of the contract.
 - Imperfect solution—while this solution is not perfect, it will allow you to proceed with your proposed conversions and continue to participate in the program.
 - The budget proposes to scale up the Moving to Work (MTW) program, which gives high-performing state and local Public Housing Authorities (PHAs) various flexibilities in their use of Housing Choice Voucher and Public Housing funds.
 - In exchange for this flexibility, PHAs will help design and test innovative policies to support self-sufficiency and other positive outcomes for families, streamline and consolidate program delivery, and reduce long-term costs.
 - In addition, PHAs will report on outcomes associated with their MTW activities, and those that choose to implement work requirements, time limits on assistance, or major rent reform initiatives will participate in rigorous evaluations.

- This budget also recognizes the need to simplify, align, and reform programs to reduce administration burdens and increase efficiency across programs.
- To both simplify the program and reduce the administrative burden on state and local public housing authorities, the budget provides all PHAs with full flexibility to use their operating and capital funds for any eligible capital or operating expense.
- **Jones:** The Family Self-Sufficiency (FSS) program will be consolidated and aligned to enable PHAs to more uniformly serve both TBRA and Public Housing residents. In addition, the budget authorizes PHAs to use a portion of their Public Housing and TBRA funding to augment case management and supportive services coordination provided through FSS or provide other supportive services to increase opportunities for residents.
 - Public Housing and Neighborhoods—we all understand the significant impact that public housing can have on the surrounding neighborhood. We need to ensure that we support efforts of PHAs to help create opportunity not just for their residents, but for everyone in the neighborhood.
 - Choice Neighborhoods—the \$400 million we have requested for our Choice Neighborhoods program represents a significant increase that will allow us to transform public and assisted housing in our hardest hit neighborhoods and ensure our children are prepared for the 21st century economy.
 - The Choice Neighborhoods initiative is a central element of the Administration’s inter-agency, place-based strategy to support local communities in developing the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity.
 - Choice Neighborhoods grants exemplify how our practices generate effective partnerships with local housing and community development efforts.
 - In his State of the Union address, the President also spoke about the effort to create Ladders of Opportunity for all Americans. The fundamental premise of the American Dream is that if you work hard and play by the rules that you will have a chance to get ahead and that your kids will have a chance to have a better life than you had.
 - The Promise Zones proposed by the President expand investments by HUD, the Departments of Education and Justice, and other agencies while coordinating and streamlining this work, to maximize our impact and reduce cost. Choice neighborhoods and RAD are essential elements of this place-based strategy.
 - Sequestration went into effect March 1. I want to stress that these cuts are deeply destructive—not just to HUD programs and the people who rely on them—but to entire communities. We have to reverse sequestration and put these misguided cuts behind us.
 - Not everyone will feel the pain of these cuts right away—but it is coming.

- Under sequestration, about 125,000 individuals and families nationwide—more than half of whom are elderly and disabled—would lose assistance provided by the Housing Choice Voucher (HCV) program.
- PHA residents could be facing higher rent burdens and longer waiting lists to enter public housing as a result of these cuts.
- While no amount of partnership, belt-tightening, or smarter management will enable us to avoid its effects, we have taken several steps to provide administrative relief which may be helpful during this difficult time.
- We published two notices on streamlining income verification for both public housing and Housing Choice Vouchers and another on reducing HCV administrative costs.
- While we are attempting to reduce these impacts, there is simply no way to prevent serious damage this year or the resulting consequences for FY'14 unless sequestration is reversed with the balanced deficit reduction plan proposed by the President.
- In closing, we're taking a broad based approach to support public housing and help PHAs better prepare for the future. I know we can count on your support. It's been a pleasure speaking with you today.
- **Locke:** Do you have any idea where you think budget cuts may come from?
 - **Jones:** We had to cut 5% across the board. With respect to public housing, where you will see cuts is furloughing of employees and PHAs not renewing vouchers.
- **Barker:** In Northern Virginia, we are already not seeing housing vouchers renewed. That is a major concern, and we have spent great effort to address these issues, like homelessness. I fear our progress will halt and decline.
- **Watkins:** You discussed capital needs and the need to access private capital funds. Usually the government is tight when providing collateral when getting into private sector funds. What does HUD anticipate?
 - **Jones:** We do provide direct financial assistance to the PHAs. What we are now allowing is for that assistance to be the revenue stream over several years that people can then use to borrow against.
- **Watkins:** In conjunction, is there a prerequisite on the part of the private sector capital entity to keep the loan percentage at a certain fixed number?
 - **Jones:** HUD does not intervene in the deal terms that the private sector entities are negotiating with lenders.

- **Watkins:** You mentioned giving the PHAs the authority to merge capital. Could you elaborate?
 - **Jones:** We separate an operating fund and a capital fund. However, the funds are not fungible.
- **Watkins:** If there is a bond issuance to raise capital, can those funds be used on the operating side as well as the capital side?
 - **Jones:** No, that is not the case. The terms of the bond issuance determine that.
- **Laura D. Lafayette, Governor Appointee:** The RAD, is that an application based process?
 - **Jones:** Yes.
- **Lafayette:** Could you provide the names of Housing Authorities that applied successfully.
 - **Jones:** I can get that for you.
- **T.K. Somanath, Governor Appointee:** Unfortunately, Virginia has not moved in terms of inclusive zoning in many of the localities. Is there innovation in other states?
 - **Jones:** There are Model Zoning Ordinances that many municipalities around the country are adopting that attempt to insure that fair housing opportunities are not impeded for those families that want to live closer to work. Fair housing challenges that I am dealing with currently are not in Virginia. Based on the data I know, Virginia is not any worse than other places. There are other places out there that are very innovative that we could learn from.
- **Delegate Barry Knight:** Does the federal government have any economic incentives for certain communities to help utilize mixed-income zoning?
 - **Jones:** Yes, we do. Community Development Block Funds is a big beneficiary of those.

IV. Brief Overview of Housing Bills 2013 Interim

- **Elizabeth Palen, Director of Legislative Services:** We had 16 bills referred to the Commission, as well as a few other concepts. We are always open to study new topics as we go along. We have no need to start up any new sub-work groups apart from the CCR group which still has to finish up its work.
 - We had two bills that passed the General Assembly and were signed by the Governor; but they still need some tweaking with language if the work groups choose to do so.
 - Bills have been broken up into their work groups, and meetings will start shortly. Chairs remain the same, with Delegate Marshall chairing the Affordability, Real

Estate Law and Mortgages Work Group, with Delegate Dance chairing the Neighborhood Transitions & Residential Land Use Work Group, with Senator Watkins chairing the Housing and Environmental Standards Work Group, and with Delegate Cosgrove chairing the Common Interest Communities Work Group.

- There is a description of each of the bills on the sheet in front of you. If you are not in a work group now and would like to be, please let me know.
- On June 13, we will have a Commission Tour of facilities in Norfolk and Portsmouth.
- **Delegate David Bulova:** There have been a few lawsuits and court decisions relating to the powers of Homeowners' Associations and Condo Associations. I would like to get a better understanding of where the law actually stands and what bills were considered.

V. Public Comment

- **Senator Locke:** asked for any public comment.

VI. Adjourn

- Upon hearing no request to comment, **Senator Locke** adjourned the meeting at 11:08 AM.